



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Hotline: Spending Taxpayer Dollars

Early Warning Report: EPA Region 9 Should Withhold Award of the Fiscal Year 2015 Drinking Water State Revolving Fund Grant to the Hawaii Department of Health

Report No. 15-P-0298

September 28, 2015



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Report Contributors:

Angela Bennett
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Abbreviations

CAP	Corrective Action Plan
CFR	Code of Federal Regulations
DOH	Department of Health
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IUP	Intended Use Plan
OIG	Office of Inspector General

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At a Glance

Why We Did This Review

During our review of a hotline complaint made against the Hawaii Department of Health (DOH), the U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) learned that Region 9 issued a Notice of Non-Compliance to the Hawaii DOH in 2014 relating to the Drinking Water State Revolving Fund (DWSRF) program.

Specifically, we became aware that \$8,787,000 was available for award to the Hawaii DOH for its fiscal year (FY) 2015 DWSRF capitalization grant.

We conducted this review to determine whether Region 9 should proceed with the award of the FY 2015 capitalization grant.

This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Launching a new era of state, tribal, local and international partnerships.*

Send all inquiries to our public affairs office at (202) 566-2391 or visit www.epa.gov/oig.

The full report is at: www.epa.gov/oig/reports/2015/20150928-15-P-0298.pdf

Early Warning Report: EPA Region 9 Should Withhold Award of the Fiscal Year 2015 Drinking Water State Revolving Fund Grant to the Hawaii Department of Health

What We Found

On October 24, 2014, Region 9 issued a Notice of Non-Compliance to the Hawaii DOH because DOH:

- Has not managed DWSRF funds in a sound, efficient and prudent manner, due to lack of adequate personnel and effective tools and processes.
- Has not committed and expended all funds in the DWSRF as efficiently as possible and in an expeditious and timely manner, which violates the Code of Federal Regulations and grant terms and conditions. As of June 2014, DOH

had total unspent funds of \$100 million (including \$33 million in EPA funds).

An attachment to the Notice of Non-Compliance contained 30 items that the Hawaii DOH was required to address. On January 30, 2015, DOH submitted a corrective action plan to address the items. During our review of the hotline complaint, we found that the DOH had not made adequate progress in implementing the corrective action plan. In particular, we noted that the DOH:

- Has not provided an acceptable Intended Use Plan for the state's FY 2016.
- Executed only 87 percent of the targeted loan commitments of \$56 million, resulting in a shortage of \$7.4 million.
- Disbursed only 80 percent of the targeted disbursements of \$60 million, leaving \$11.8 million in undisbursed funds.

In addition, based on our observations, projects on the fundable list may not be ready to proceed and estimated start dates may not be realistic.

Recommendation

We recommend that the Regional Administrator, Region 9, exercise fiduciary responsibility and withhold FY 2015 funds of \$8,787,000 for the Hawaii DOH DWSRF capitalization grant until the region is satisfied with the corrective action plan implementation progress.

Noteworthy Achievements

On September 10, 2015, the OIG briefed Region 9 on this report. On September 21, 2015, Region 9 initiated an enforcement action against Hawaii DOH for not meeting its loan commitment and disbursement targets. Region 9 advised Hawaii DOH that the FY 2015 DWSRF capitalization grant would be withheld and that the region may withhold further awards. Hawaii DOH has 30 days to appeal the region's decision.

Due to a Notice of Non-Compliance issued to the Hawaii DOH and lack of adequate progress on a corrective action plan, the EPA should withhold about \$8.8 million in FY 2015 DWSRF capitalization grant funds.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

September 28, 2015

MEMORANDUM

SUBJECT: Early Warning Report: EPA Region 9 Should Withhold Award of the Fiscal Year 2015 Drinking Water State Revolving Fund Grant to the Hawaii Department of Health Report No. 15-P-0298

FROM: Arthur A. Elkins Jr. 

TO: Jared Blumenfeld, Regional Administrator
Region 9

During a review of a hotline complaint made against the Hawaii Department of Health, the U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) became aware that the fiscal year 2015 Drinking Water State Revolving Fund capitalization grant has not been awarded. As a result, this early warning report recommends that Region 9 withhold the award of the grant due to the inability of the Hawaii Department of Health to implement adequate corrective actions.

Action Required

In accordance with EPA Manual 2750, you are required to provide us your proposed management decision on the finding and recommendation contained in this report before you formally complete resolution with the grant recipient. Your proposed management decision is due in 120 days, or on January 26, 2015. To expedite the resolution process, please email an electronic version of your proposed management decision to trefry.john@epa.gov.

Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

This report will be available at <http://www.epa.gov/oig>.

U.S. EPA

Office of Inspector General

Early Warning Report:

EPA Region 9 Should Withhold Award
of the Fiscal Year 2015 Drinking Water
State Revolving Fund Grant to the
Hawaii Department of Health

Report No. 15-P-0298

September 28, 2015

Assignment Objective

To determine whether Region 9 should proceed with the fiscal year (FY) 2015 grant award of \$8,787,000 relating to the Hawaii Department of Health's (DOH's) Drinking Water State Revolving Fund (DWSRF).

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Background

- The Office of Inspector General (OIG) received an anonymous hotline complaint on June 18, 2015. The complainant alleged that the Hawaii DOH:
 - “Pooled” its DWSRF with Hawaii Department of Transportation funds.
 - Has 10 open grants with \$30 million in unspent funds.
 - The oldest open grant was awarded in July 2006.
- During our review of the hotline, we became aware that an additional \$8,787,000 million was available to the Hawaii DOH for its FY 2015 DWSRF grant award.

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Background

- On October 24, 2014, Region 9 issued a Notice of Non-Compliance to the Hawaii DOH because the Hawaii DOH:
 - Has not managed the DWSRF funds in a sound, efficient and prudent manner and does not have sufficient personnel and effective tools and processes.
 - Has not committed and spent all funds in the DWSRF as efficiently as possible and in an expeditious and timely manner, which violates the Code of Federal Regulations (CFR) in 40 CFR § 35.3550 (c) and (l), as well as the grant terms and conditions.

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Background

- As of June 2014, the Hawaii DOH had total unspent DWSRF funds of \$100 million (\$33 million EPA and \$67 million state).
- Attachment to the Notice of Non-Compliance contained 30 items that the Hawaii DOH was required to address.
- On January 30, 2015, the Hawaii DOH submitted a corrective action plan (CAP) to address these concerns. The purpose of the CAP was to set targets to reduce the \$100 million of unspent funds and implement process improvements.

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Background

- Some of the CAP items include:
 - ❖ Final Intended Use Plan (IUP) submittal.
 - ❑ IUP is the Hawaii DOH's plan for utilizing its DWSRF in FY 2016.
 - ❖ Loan commitments.
 - ❑ The amount of funding Hawaii DOH must commit in executed assistance agreements.
 - ❖ Loan disbursements.
 - ❑ The transfer of cash from the DWSRF program account established in the state's bank to an assistance recipient.
 - ❖ Cumulative spending rate for the 15 percent set asides.
 - ❑ 15 percent of DWSRF grant funds is set aside to support local assistance and other state programs.

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Scope and Methodology

- Reviewed the Notice of Non-Compliance.
- Reviewed CAP to determine target objectives.
- Reviewed reports submitted by the Hawaii DOH to assess progress of selected CAP items.
- Compared state fundable project lists for FYs 2014 through 2016 to identify projects that may be ready to proceed.

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Scope and Methodology

- This assignment was performed in accordance with generally accepted government auditing standards, except for the following:
 - The report does not review or reach a conclusion regarding the Hawaii DOH's internal controls.
 - This objective was not part of the original hotline assignment plan.
- The departure from the standards has no impact on the finding or recommendation in this report.

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Meeting CAP Targets

CAP Items	Target	Actual	Comply (Y/N)
Final IUP	Submit final IUP for state FY 2016 by 5/31/15	Final IUP not yet submitted	No
Loan commitment*	\$56,031,271 (10 loans)	\$48,638,387 (8 loans)	No
Loan disbursement*	\$60,162,727	\$48,375,742	No
15% set asides	Cumulative spending rate of 75%	76%	Yes

*Cutoff = state FY ended 6/30/15

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Final IUP for State FY 2016

- Target: May 31, 2015.
- Original version dated April 2015.
 - Amendments 1 and 2 dated June and August 2015, respectively.
 - Additional versions submitted in August 2015 and September 10, 2015.
 - None of the versions has been approved by the EPA as of September 15, 2015.
 - IUP more than 3 months late.

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Loan Commitment

- Target: \$56,031,271 (10 loans)
- Achieved: \$48,638,387 (8 loans)
 - 87 percent of the targeted dollars
 - Approximately \$7.4 million short
- Shortages due to borrower delays in providing site certifications.

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Loan Disbursements

- Target: \$60,162,727
- Achieved: \$48,375,742
 - 80 percent of the targeted dollars
 - Approximately \$11.8 million short
- Shortages due to borrower delays in construction, including unanticipated site conditions, permits and contractor resources.

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Conclusion

Region 9 should withhold the FY 2015 DWSRF funding of \$8,787,000 to Hawaii DOH due to:

1. The region's Notice of Non-Compliance.
2. The lack of adequate progress by the Hawaii DOH on the CAP.

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Recommendation

We recommend that the Regional Administrator,
Region 9:

1. Exercise fiduciary responsibility and withhold FY 2015 funding of \$8,787,000 for the DWSRF capitalization grant to the Hawaii DOH until Region 9 is satisfied with CAP implementation progress.

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Other Observation

- Projects on the fundable list may not be ready to proceed and estimated start dates may not be realistic.
 - State FY 2016 fundable list included five projects carried over from the state FY 2015 fundable list. Two of the five projects were also on the state FY 2014 list.

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Region 9 Comments

- OIG briefed Region 9 on the assignment, results, and recommendation on September 10, 2015.
- Region 9 concurred with the intent of the recommendation, but did not provide planned corrective actions.

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Noteworthy Achievements

- On September 21, 2015, Region 9 issued a grant enforcement action letter.
 - The enforcement letter was sent due to Hawaii DOH not meeting its loan commitment and loan disbursement CAP targets.
 - Region 9 will withhold the majority of the FY 2015 DWSRF Capitalization grant and may withhold further awards.
 - Hawaii DOH has 30 days to appeal the region's decision.

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Future Work

- Our work on the hotline continues.
- Results regarding the hotline allegations will be reported separately.

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Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	14	Exercise fiduciary responsibility and withhold FY 2015 funding of \$8,787,000 for the DWSRF capitalization grant to the Hawaii DOH until Region 9 is satisfied with CAP implementation progress.	O	Regional Administrator, Region 9		\$8,787	

¹ O = Recommendation is open with agreed-to corrective actions pending.
 C = Recommendation is closed with all agreed-to actions completed.
 U = Recommendation is unresolved with resolution efforts in progress.

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